



175 West Jackson Shows Moving Parts of Bond Cashflow Projections

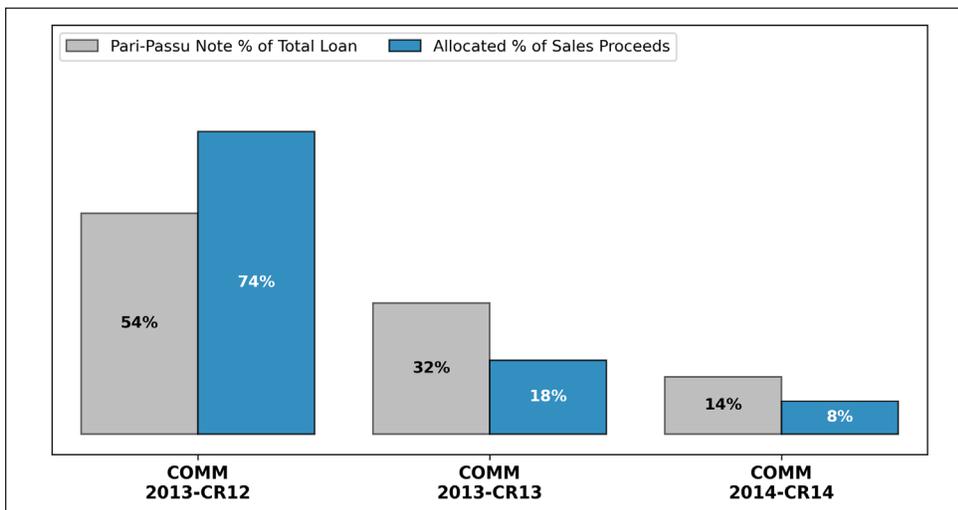
The liquidation of the \$250.5 million 175 West Jackson loan (COMM 2013-CR12, CR13, and COMM 2014-CR14) showed that investors should not necessarily expect sale proceeds allocation to match pari passu exposures. The liquidation waterfalls across exposed deals also can look quite different. Servicer reimbursements can dominate some waterfalls, leaving smaller allocations to bondholders. In turn, shortfall recoveries can overwhelm the bondholder allocations, resulting in minimal or no principal payments. 175 W. Jackson underscores there are quite a few moving parts in loss projections, especially on large pari passu loans.

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Latest remits reflect the recent sale of 175 W. Jackson. The 1.45 million SF office property in Chicago sold to the tune of \$41 million, according to press reports. The sales proceeds allocation across the three exposed conduits significantly diverged from the pre-liquidation relative pari passu exposures. COMM 2013-CR12, with 54% exposure to the \$250.5 million total loan balance, received 74% of the overall sale proceeds (Figure 1). Consequently, COMM 2013-CR13 (32% pre-liquidation exposure) and COMM 2014-CR14 (14%), received far smaller shares of the proceeds, 18% and 8%, respectively. The overall allocated proceeds, at \$46.5 million, also somewhat diverged from the reported sale price. All told, the 175 W. Jackson liquidation allocation left several open questions. We may not be able to readily answer all of them at this point. Upcoming remits/deal documents may shed more light.

Figure 1. 175 West Jackson Sale Proceeds Allocations

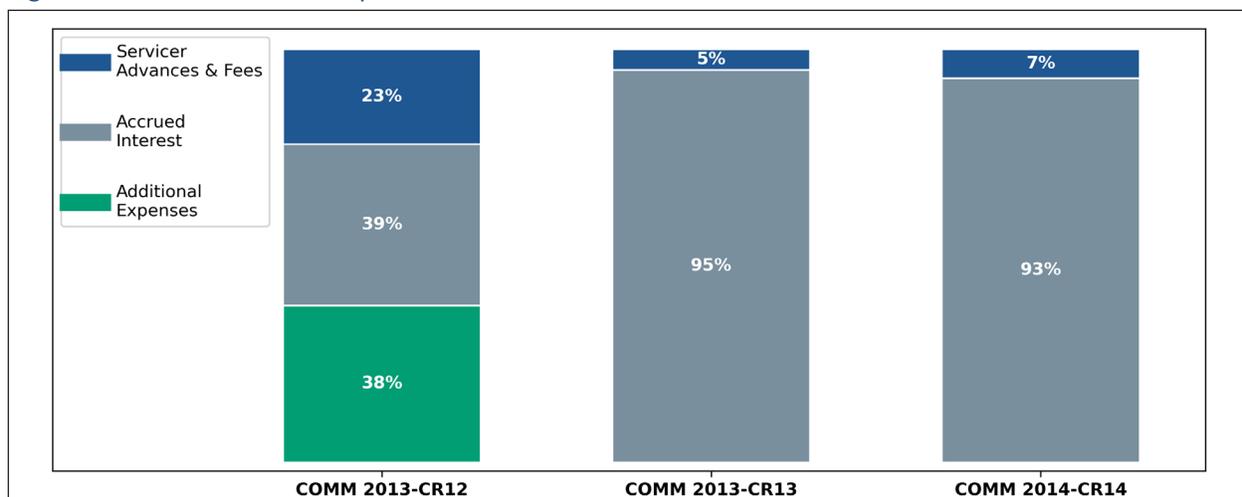


Source: Deal documents, Morningstar Credit, and Academy Securities

Advances and Non-recoverability Create Vastly Different Waterfalls

Multiple expense and reimbursement items impact liquidation waterfalls. The three 175 W. Jackson conduits reported notably different waterfalls, even while exposed to the very same loan. The loan languished in special servicing for years. This led to the accumulation of various fees and advances. The deals also had significant shortfalls, following a non-recoverability determination. Still, in COMM 2013-CR12, reimbursement of servicer advances comprised 26% of the overall liquidation expenses (Figure 2). In CR13 and CR14, those chunks were significantly lower, at 5% and 7%, respectively. CR13 and CR14 also showed very different breakdowns of accrued interest and expense reimbursements compared to CR12.

Figure 2. 175 West Jackson Liquidation Waterfalls



Source: Deal documents, Morningstar Credit, and Academy Securities

Aspects to Watch Ahead of Liquidations

The varied waterfalls across the 175 W. Jackson exposures suggest investors should consider the following aspects on bond valuation ahead of loan liquidations:

- **Go beyond “total exposures”.** A loan total exposure captures the loan’s outstanding balance along with cumulative ASER, outstanding servicer advances, and other expenses and interest. Total exposure is a better yardstick than just the loan’s balance to project recoveries, as we noted in previous [research](#).¹ Yet total exposure has become insufficient metric. ASER reimbursements are now de-prioritized in liquidations. ASER did not play any role in 175 W. Jackson liquidation allocations, even though the exposed deals accumulated pre-liquidation ASERs. In turn, servicer advance reimbursement still prioritizes bond payments. But advance reimbursements were relatively inconsequential in two of the three 175 W. Jackson waterfalls. In contrast, non-recoverability-driven shortfalls, which are not part of the total exposure metric, comprised significant shares in all three waterfalls. All told, investors should augment total exposure calculations with non-recoverable shortfalls. Meanwhile, ASERs may unnecessarily inflate total exposure-driven loss projections.

¹ “Credit 2023: Advancing and Workout Approaches to Play a Central Role,” CMBS Credit Focus, Academy Securities, December 15, 2022

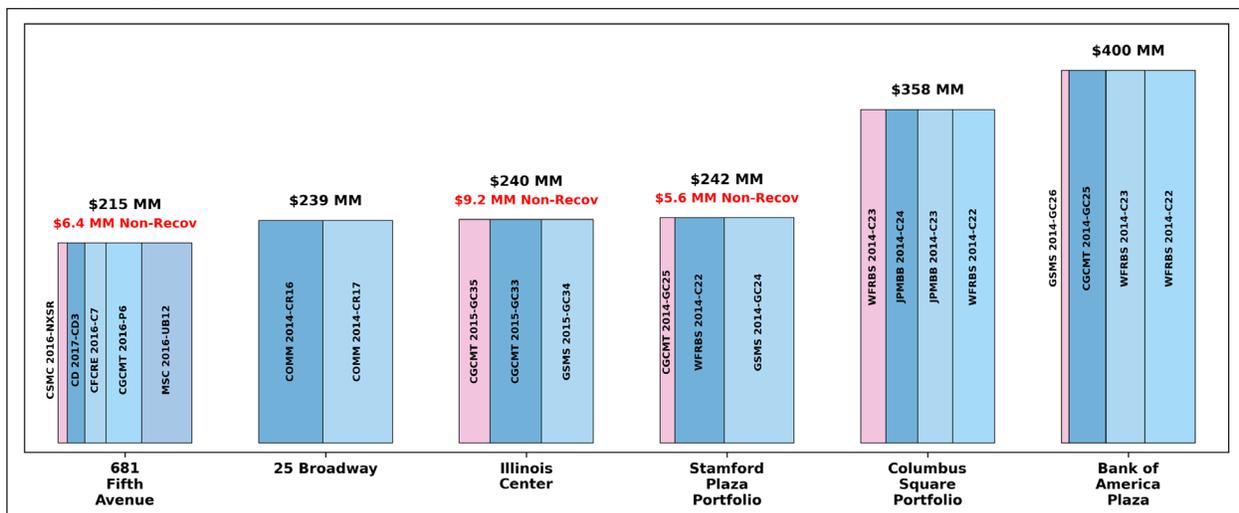
Pari Passu Liquidations: Different Waterfalls on Same Property Sale

- Liquidation sales price may not be the same as sales proceeds.** Liquidation analysis typically begins with NOI- or comps-driven property valuation. This handicaps the overall liquidation proceeds investors can expect on an eventual property sale. 175 W. Jackson shows there are other items, some perhaps unexpected, that can lift the overall liquidation sales price (IRP fields L114, D43) compared to the projected sales proceeds. COMM 2013-CR12 showed the addition of \$3.3 million reserve balance, and \$7.8 million “other proceeds” to the \$34.5 million sales proceeds. This resulted in overall liquidation net proceeds of \$45.6 million (IRP fields L45, D17). COMM 2013-CR13 and COMM 2014-CR14 did not benefit from those items. CR13 and CR14 did not have any pre-liquidation reserve balances, unlike CR12. In both CR13 and CR14, the sales proceeds did equal the net proceeds. Still, the reported “other proceeds” in CR12 did introduce another oddity while comparing the pari passu waterfalls.
- Sleuth for non-recoverable advances/shortfalls accumulation.** A large accumulation of non-recoverability-driven shortfalls or advances can dominate liquidation waterfalls. By now, most investors are likely aware that reimbursement of such non-recoverable items can prioritize principal payments. 175 W. Jackson yet again showed that, following the footsteps of 1740 Broadway and other liquidations of loans with non-recoverable [determinations](#).² Yet 175 W. Jackson shows how challenging it is to track non-recoverable items. The non-recoverable clawbacks can also vary across pari passu exposures. Interestingly, CR12 reports the clawbacks of both P&I and tax/insurance/PPA items. CR13 and CR14 do not include some of CR12’s expense items. All told, handicapping non-recoverable reimbursements significantly complicates liquidation projection analysis, but has become a critical part of such analysis.

Large Outstanding Pari Passu Loans Can Also See Diverging Waterfalls

Investors can apply some of the cashflow projection aspects that the 175 W. Jackson liquidation showed to large outstanding pari passu that may be getting closer to their liquidation. Several seriously distressed pari passu loans, such as the \$242 million Stamford Plaza Portfolio or the \$240 million Illinois Center, also have non-recoverability determinations (Figure 3).

Figure 3. Large Distressed Pari Passu Loans



Source: Deal documents, Morningstar Credit, and Academy Securities

² “Recovering Shortfalls: Credit IO Value in Distressed Office,” CMBS Credit Focus, Academy Securities, May 21, 2024

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